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*REPORT OF THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES*

RELEASED



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Inter-American Foundation's  
Financial Disclosure System  
For Employees And Its  
Procurement Practices

Standards of ethical conduct for Government officials are prescribed by Executive order of the President. In line with this order, the Inter American Foundation established a financial disclosure system to monitor the financial interests of certain employees. GAO noted weaknesses in this system and is recommending improved procedures to identify employees who should be required to file financial disclosure statements, to ensure timely collection of statements from all employees required to file, and to appoint a deputy counselor. GAO found that procurement practices were adequate to protect the interests of the Government.

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JUNE 30, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-185101

The Honorable John E. Moss  
House of Representatives

Dear Mr. Moss:

In response to your request of October 9, 1975, we reviewed the disclosure system for financial interests and the procurement practices of the Inter-American Foundation, a wholly owned Government corporation. 650

Our review was conducted at the Foundation's office in Rosslyn, Virginia, where we (1) examined all financial interests listed by employees on the financial disclosure statements since the corporation's inception, (2) reviewed position descriptions of employees required to file statements to identify potential conflicts, and (3) reviewed responsibilities of several positions whose incumbents are not currently required to file to determine whether they were properly excluded. We also reviewed agency regulations governing employee standards of conduct and discussed operations of the financial disclosure system with agency officials. The confidentiality of employees who filed statements was maintained at all times.

We did not review the financial disclosure statements of the Board members, who are appointed by the President. Executive Order 11222 requires their statements to be filed directly with Civil Service Commission, together with those of other high-ranking Government officials. As part of another ongoing assignment, we are reviewing Civil Service Commission implementation of the Executive order and will be reporting to the Congress on the results of that review.

We found no real or apparent conflicts of interests. The Foundation's regulations are consistent with Civil Service Commission guidelines. The system, however, could be improved by instituting adequate procedures to determine which employees should file financial disclosure statements, requiring timely submission of statements, and appointing a deputy counselor.

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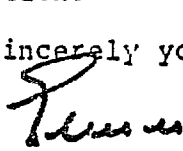
In addition, we examined procurement actions for fiscal years 1973-75 and discussed procurement with agency officials to determine the adequacy of procedures and practices. We found that procurement actions generally complied with informal agency requirements and Federal Procurement Regulations.

Details of our review and our conclusions and recommendations for necessary corrective action are included in appendix I.

The Foundation has not been given an opportunity to formally comment on this report, but we discussed our findings with Foundation officials during the course of our review.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We will be in touch with your office in the near future to arrange for release of the report so that the requirements of section 236 can be set in motion.

Sincerely yours,



Comptroller General  
of the United States

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EFFECTIVENESS OF THE INTER-AMERICAN FOUNDATION'SFINANCIAL DISCLOSURE SYSTEM FOREMPLOYEES AND PROCUREMENT PRACTICESBACKGROUND

The Inter-American Foundation is a wholly owned Government corporation established pursuant to part IV of the Foreign Assistance Act of 1969, as amended, (22 U.S.C. 290f). Its purpose is to strengthen bonds of friendship and understanding among the people of this hemisphere, support self-help efforts designed to enlarge opportunities for individual development, stimulate and assist participation in the development process, and encourage democratic institutions appropriate to the requirements of the individual countries. The Foundation accomplishes its charter by making grants to aid self-initiated efforts, generally by nongovernmental, non-profit Latin American and Caribbean groups.

Enabling legislation authorized the Foundation \$50 million, to remain available until expended. In 1973, the Foundation also entered into a 3-year agreement with the Inter-American Development Bank to use up to \$10 million annually from the Social Progress Trust Fund administered by the Bank. In 1976, the agreement was extended to allow the Foundation to use up to \$16 million annually for the following 3 years. Through fiscal year 1975, the Foundation had approved or provided \$35 million for about 323 projects in 26 countries. Grants average \$100,000 but range up to \$1.5 million.

The Foundation does not design or operate projects, but responds to initiatives originating with local Latin American and Caribbean people who are identifying their problems and acting on them. The Foundation makes every attempt to respect the ideas and autonomy of the project initiators. It does not negotiate nor attempt to influence the contents of a project, but after review, decides whether it can assist the project. Most grant funds are used for personnel expenses and revolving loans, with relatively minor amounts being used for procurement of material items.

FINANCIAL DISCLOSURE REQUIREMENTS  
AND AGENCY PROHIBITIONS

Executive Order 11222, dated May 8, 1965, prescribed standards of ethical conduct for Government officers and employees and directed the Civil Service Commission (CSC) to

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establish implementing regulations. In November 1965, CSC issued instructions requiring each agency to prepare employee conduct standards and to establish a review system for employee financial disclosure statements. Standards of conduct regulations established by each agency must be approved by CSC.

The Foundation's regulations (22 CFR 1001) governing responsibilities and conduct of its employees were approved by CSC in December 1971 and issued in April 1972. The regulations established the Foundation's financial disclosure system for its employees.

The General Counsel was designated as the Foundation's ethics counselor and the Deputy General Counsel as deputy counselor. They are responsible for providing employees with information and advice on standards of conduct and for resolving real or apparent conflicts of interest. The deputy counselor is responsible for reviewing the financial disclosure statement of incumbents of designated positions that must be filed 10 days before entrance on duty and updated annually as of June 30. He is required to discuss with the employee any statement found to contain evidence of real or apparent conflict of interest. If the matter is not resolved by the deputy counselor, pertinent information is reported via the counselor to the President of the Foundation for remedial action, including reassignment to a different position, divestment of the interest, disqualification from a particular assignment, or disciplinary action. Written summaries of decisions are to be kept by the deputy counselor. Because of the position of Deputy General Counsel has been vacant since March 1974, the counselor performs the duties of the deputy counselor.

Prohibitions affecting Foundation employee financial holdings and outside employment are included in the Foundation's regulations and in the Foreign Assistance Act of 1969, as amended (22 U.S.C. 290f). The Foundation's regulations prohibit an employee from:

- Participating in his governmental capacity in any matter in which he, his spouse, or minor child, associate, or organization with whom he has a business relationship, or person or organization with whom he is negotiating for employment has a financial interest.
- Having a direct or indirect financial interest that conflicts or appears to conflict substantially with his Government duties and responsibilities.

- Engaging directly or indirectly in a financial transaction that results from or primarily relies on information obtained through his Government employment.
- Engaging in outside employment or other outside activity not compatible with the full and proper discharge of the duties and responsibilities of his Government employment.

The Foreign Assistance Act states that:

"No director, officer, or employee of the corporation shall in any manner directly or indirectly participate in the deliberation upon or the determination of any question affecting his personal interests or the interests of any corporation, partnership, or organization in which he is directly or indirectly interested."

NEED TO STRENGTHEN FINANCIAL .  
DISCLOSURE SYSTEM

The Foundation's regulations generally conform with CSC's financial disclosure guidelines, and we found no real or apparent conflicts of interest in our review of filed statements. However, certain improvements are needed in the system of financial disclosure, including (1) definitive criteria for identifying positions whose incumbents should file financial disclosure statements, (2) more timely submission of financial disclosure statements, and (3) appointment of a deputy counselor.

Criteria for identifying positions  
whose incumbents should file  
financial disclosure statements

Foundation regulations require filing of a financial disclosure statement by GS-13s and above whose duties include, among other things, administration or monitoring of grants. The regulations also state that other employees must file when necessary "to avoid involvement in a possible conflict of interest situation and carry out the purpose of the law, Executive Order 11222, and the Agency's regulations."

The Foundation has required all 27 employees who are GS-13s and above, including 12 Foundation representatives, to file financial disclosure statements. Employees below the GS-13 level, 5 of whom are GS-12 Foundation representatives and are directly involved with administering and monitoring grants, are not required to file statements.

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To determine the adequacy of criteria for identifying positions whose incumbents should file financial disclosure statements, we reviewed the responsibilities and duties of the incumbents occupying positions below the GS-13 level and concentrated on the positions of GS-12 Foundation representatives and their effect on the Foundation. Incumbents in these positions

- develop programs and plans to locate, identify, and respond to social and economic development projects;
- prepare reports and supporting documents of their research and analyses to determine which project proposals meet the criteria for Foundation support;
- monitor the progression of project proposals and initiate all communications to prospective grantees;
- initiate and negotiate grant agreements with grantees;
- visit assigned countries to identify prospective grantees and to review and evaluate the progress of approved projects; and
- draft position papers and public statements related to social change.

These responsibilities and duties are essentially the same as those of representatives at the GS-13 and 14 levels and all representatives report to the same supervisory level. Because of the effect of representatives' actions on the Foundation, we believe these representatives should be required to file financial disclosure statements. A determination by the agency that employees below the GS-13 level are required to file must be approved by the CSC. Foundation officials told us that, although they agree that all Foundation representatives should be required to file, the Foundation did not request CSC approval to require representatives below GS-13 to file because they understood the CSC would not approve such a requirement. They now plan to review the duties and responsibilities of all employees below the GS-13 level, determine those which should be required to file statements, and request CSC approval for the determination.

### Timeliness of collection and review of financial disclosure statements

CSC regulations provide that an employee required to file a financial disclosure statement must do so within 30 days after entrance on duty and must report changes in financial



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interests annually as of June 30. If no changes occur since the filing of the previous statement, a negative report is required. Foundation regulations are more stringent than those of CSC and require employee financial disclosure statements to be filed 10 days prior to entrance on duty. The Foundation requires annual updates in accordance with CSC regulations.

Since the effective date of the Foundation's regulations, 14 incumbents have been required to file statements, none of whom did so 10 days prior to entrance on duty as required by Foundation regulations. Four of them filed within 30 days after entrance on duty as required by CSC regulations; the remaining 10 employees filed up to 381 days after the 30-day limit, averaging 186 days late.

We were advised by the General Counsel that the Foundation, in practice, does not require an employee promoted into a covered position to file a financial disclosure statement until the fiscal yearend. We found that three current employees were promoted into covered positions. One employee filed a statement within 491 days after promotion, another within 210 days, and one employee promoted on February 1, 1976, is not required by the Foundation to file a statement until June 30, 1976.

Although all employees required to file annual update statements as of June 30, 1973 and 1975 did so, seven of those required to file at June 30, 1974, did not file statements. In addition, although filings at yearend in 1973 were generally submitted within a reasonable period after June 30, those in 1974 were generally not submitted until September and October. Filing in 1975 was again more timely, with only four employees filing after August 12.

We were informed that late filings on annual updates are partly due to problems associated with contracting employees in lengthy travel status. We believe late filings were also due to lack of timely reminders to employees of the need to file. For example, the reminder memo in 1974, when many statements were late and some were not filed, was not issued until September 20.

The Foundation's General Counsel advised us that he assumed his position in May 1975, reviewed the statements filed for the year ended June 30, 1975, and found no conflicts of interest. To his knowledge, no conflicts were found in prior years, and the files contain no written summaries of the disposition of conflicts. Such summaries are required in all cases of conflicts identified.

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Although we also found no conflicts of interest in our review of the statements, the lack of timely notification of filing requirements by the cognizant officials and the lack of timeliness in filing on the part of some employees could result in employees holding conflicting interests for extended periods of time. The General Counsel stated that regulations will be revised to require filing within 30 days of entrance on duty and that procedures necessary to ensure adherence will be instituted for employees promoted into positions whose incumbents must file as well as for new employees hired for those positions and for annual updates.

### Appointment of a deputy counselor

CSC regulations require that each agency appoint a deputy counselor for its employees. The deputy counselor must be qualified and able to advise and guide employees on questions of conflicts of interest. The Foundation's regulations provide that the Deputy General Counsel will be the deputy counselor and delegate many specific financial disclosure system duties to him.

We were advised by the General Counsel that the Foundation does not have a deputy counselor because the position of Deputy General Counsel has been vacant since March 1974 and that there is no plan to appoint a Deputy General Counsel. He stated that the counselor has performed the duties of the deputy since March 1974. When we brought the CSC requirement for a deputy counselor to his attention, he stated that the Foundation would appoint a deputy counselor.

### PROCUREMENT PRACTICES

Enabling legislation (22 U.S.C. 290(f)(e)) provided that the Foundation, as a corporation:

"(3) may make and perform contracts and other agreements with any individual, corporation, or other body of persons however designated whether within or without the United States of America, and with any government or governmental agency, domestic or foreign;

"(4) shall determine and prescribe the manner in which its obligations shall be incurred and its expenses, including expenses for representation (not to exceed \$10,000 in any fiscal year), allowed and paid;

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"(6) may acquire by purchase, devise, bequest, or gift, or otherwise lease, hold and improve, such real and personal property as it finds to be necessary to its purpose \* \* \*."

Because of its mission, the Foundation's direct procurement activities are limited to items of administrative support and services and to contracts for studies of social change resulting from grant projects and for candidates for fellowships.

As noted above, most grant funds are used for personnel and loan revolving funds, with relatively little used to procure material items. In line with the Foundation's policy of respecting the autonomy of project initiators and refraining from influencing project content, grant agreements and project reports do not indicate details on sources, brands, etc., of purchased items.

Administrative support and services totaled \$295,000, \$327,000, and \$320,000 in fiscal years 1973, 1974, and 1975, respectively, and included rent for office space, telephone expenses, purchase of fixed assets, and administrative support services provided by the General Services Administration under agreement.

The Foundation has also contracted with individuals to assist in evaluating candidates for the fellowship program and with individuals generally indigenous to the country affected, to study the social changes resulting from projects funded by the Foundation. These activities, primarily study efforts, totaled about \$500,000 in fiscal year 1975. Resources devoted to these contracts have decreased in recent years. We were informed that, as a general rule, the Foundation will no longer use contracts for these studies but, in line with being a learning process for the grantees, will encourage studies as part of the grants themselves.

The Foundation has no formalized procurement policies or procedures but uses the Federal Procurement Regulations as guidance in procurement actions. Informal procedures call for preparation and approval of purchase orders on procurements over \$50, maximum use of General Services Administration schedules, and informal comparative shopping for items not on the schedules. For personal services, the Foundation relies on staff knowledge, contacts, and research for identifying individuals capable of providing the required services. Proposed contracts were reviewed by the director of research and evaluation and by the president of the Foundation for professional merit and the contracts were signed by the

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Executive Director. We reviewed procurement actions over \$1,000 during fiscal years 1973-75 and found that procurement generally complied with required procedures.

### CONCLUSIONS

As a result of its mission and approach, the Foundation's involvement with private industry is very limited; nevertheless, it is imperative that employees maintain the highest standards of ethical conduct to assure proper performance of the Foundation's business and to maintain confidence in the Government. The Foundation must insure through its financial disclosure system that its employees maintain these high standards.

Our review disclosed no real or apparent conflicts of interest. The Foundation's regulations conform to CSC guidelines; however, the system needs to institute procedures to determine which employees should file financial disclosure statements, require timely submission of statements, and appoint a deputy counselor.

We believe that use of Federal Procurement Regulations provide sufficient guidance to adequately protect the Government's interest. We found these guidelines generally followed.

### RECOMMENDATIONS

To improve the effectiveness of the Foundation's financial disclosure system, we recommend that the president of the Foundation ensure that corrective action is taken to:

- Develop definitive criteria to determine which employees below the GS-13 level have responsibilities warranting the filing of financial disclosure statements and seek CSC permission to require these employees to file statements.
- Require that financial disclosure statements be submitted within 30 days after a new employee's entrance on duty to a position for which a statement is required.
- Require nonfiling employees promoted to positions that require disclosure statements to file within 30 days after promotion.